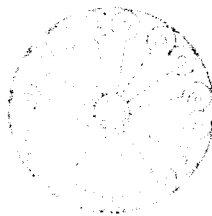


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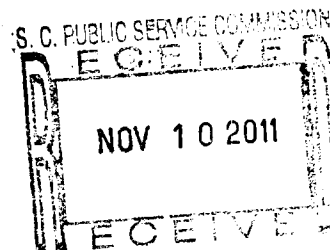
Michael A. Molony

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November 9, 2011



Jocelyn Boyd
South Carolina Public Service Commission
P.O. Drawer 11649
Columbia, SC 29211

Re: Kiawah Property Owners Group, Inc., First Set of Interrogatories to
Kiawah Island Utility
PSC Docket No. 2011-317-W/S
YCR File No: 2589-20110772

Dear Jocelyn:

Enclosed please find Kiawah Island Property Owner's Group Inc. pre-filed testimony of Diane Lehder and Wendy Kulick in the above referenced case.

I am providing a Certificate of Service, indicating all parties of record have been provided these pre-filed testimonies.

With kind regards, I am

Sincerely,

Young Clement Rivers, LLP

Michael A. Molony

MAM/jrh

Enclosure(s)

cc: Jeffrey M. Nelson, Esq. (ORS)
Shannon Bowyer Hudson, Esq. (ORS)
John P. Seibels, Jr. Esq. (KICA)
Jason Luck, Esq. (KICA)
G. Trenholm Walker, Esq.
Wendy Kulick
Diane Lehder

RETURN DATE: OK postmarked 11/9
SERVICE: OK

BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2011-317-W/S

CERTIFICATE OF MAILING

We hereby certify that on this 9th day of November 2011, we served a copy of the foregoing
Pre-filed Testimony of Intervenor Kiawah Property Owners Group, Inc. upon:

G. Trenholm Walker, Esquire
Pratt-Thomas, Pearce, Epting, & Walker
P.O. Drawer 22247
Charleston, South Carolina 29413-2227

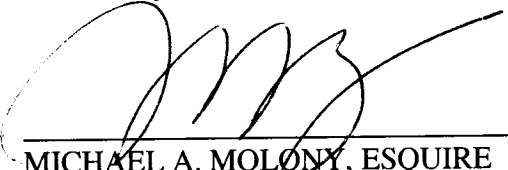
Shannon Bowyer Hudson, Esquire
Counsel, Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

Jeffrey M. Nelson, Esquire
Counsel, Office of Regulatory Staff
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Jason Scott Luck, Esquire
John P. Seibels, Jr. Esquire
Kiawah Island Community Association,
Incorporated
The Seibels Law Firm
127 King Street, Suite 100
Charleston, SC 29401

by first-class mail, postage prepaid.

DATED at Charleston, South Carolina, this 9th day of November, 2011.



MICHAEL A. MOLONY, ESQUIRE
Young Clement Rivers, LLP
25 Calhoun Street, P.O. Box 993
Charleston, South Carolina 29401

Charleston, South Carolina

1 KIAWAH ISLAND UTILITY, INC.

2 DOCKET NO. 2011-317-WS

3 PRE-FILED TESTIMONY OF DIANE Z. LEHDER

4 BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

5 Testimony Prepared: November 9, 2011

6 Hearing Date: November 30, 2011

7 THIS TESTIMONY IS FILED PURSUANT TO PSC LETTER DATED AUGUST 15, 2011.

8 THE INTERVENOR RESERVES THE RIGHT TO PROVIDE ADDITIONAL TESTIMONY

9 CONCERNING FURTHER INTERROGATORY RESPONSES AND REBUTTAL

10 TESTIMONY TO BE PRE-FILED PURSUANT TO SAID ORDER, BY THE APPLICANT

11 AND/OR ANY OTHER PARTY TO THIS PROCEEDING.

12 MR. MOLONY: PLEASE STATE YOUR NAME AND ADDRESS.

13 MS. LEHDER: My name is Diane Z. Lehder. I live at 306 Palm Warbler on Kiawah

14 Island. This is my permanent address and has been my residence for almost 10 years.

15 MR. MOLONY: ARE YOU AUTHORIZED BY THE KIAWAH PROPERTY OWNERS
16 GROUP, INC., TO APPEAR BEFORE THE COMMISSION TODAY?

17 MS. LEHDER: Yes. The Board of Directors of the Kiawah Property Owners Group ("KPOG")
18 has authorized me to appear and present the views of our organization regarding the rate increase
19 application (the "Application") filed with the Public Service Commission (the "Commission") by
20 the Kiawah Island Utility Company, Inc. ("KIU").

21 MR. MOLONY: PLEASE STATE YOUR INVOLVEMENT IN THIS RATE APPLICATION.

1 MS. LEHDER: I am the current President of KPOG, an incorporated, non-profit volunteer
2 organization of Kiawah Island property owners. KPOG was formerly known as the Home
3 Owners Group and then the Kiawah Residents Group, an organization which has appeared before
4 the Commission in previous KIU rate proceedings. Our organization has approximately 3,600
5 resident and non-resident members who own approximately 1,900 properties. The by-laws of our
6 organization clearly charge us with the responsibility to present a pro-active, effective voice in
7 the present and future development of the island, and to create and maintain a liaison with the
8 various entities on Kiawah Island for the benefit of all property owners. Specifically, our by-
9 laws identify our mission as:

- 10 • To represent the members' key concerns regarding Kiawah Island.
- 11 • To study significant issues related to Kiawah Island and to report to the membership the
12 results of these studies.
- 13 • To be an effective advocate for the membership in the development and governance of
14 Kiawah Island, while respecting the rights and responsibilities of the Town of Kiawah
15 Island, the Kiawah Island Community Association, the developer, and the resort owner.
- 16 • To communicate with these entities in order to provide them with KPOG's studies,
17 concerns, and points of view.

18 The purpose of our intervention at this time is to provide a voice for property owners, expressing
19 concern regarding the current application for a significant rate increase by KIU.

20
21 MR. MOLONY: PLEASE STATE THE POSITION OF KPOG REGARDING THIS RATE
22 APPLICATION.

1 MS. LEHDER: KPOG fully understands and appreciates KIU's request for a reasonable rate —
2 increase. We support the addition of a second water line, but believe its cost should not be the
3 responsibility of only the KIU customers. We believe the rate increase requested by KIU in the
4 Application is not reasonable or justified. KPOG is concerned that the rate increase will be
5 passed on to the customers of KIU not once, but multiple times. We also feel the benchmark of
6 consumption used in the Application of 11,000 gallons is extremely high and unfair to the non-
7 resident KIU customers who use their properties sporadically.

8
9 MR. MOLONY: YOU MENTION ABOVE THAT KPOG IS CONCERNED ABOUT THE
10 CUSTOMERS OF KIU PAYING THE RATE INCREASE MULTIPLE TIMES; CAN YOU
11 PLEASE ELABORATE ON THIS STATEMENT?

12 MS. LEHDER: Yes, anyone who purchases a home on Kiawah Island is required to become a
13 member of the Kiawah Island Community Association ("KICA"), which has responsibility for
14 all infrastructure behind the security gates and owns and maintains the roads. One of KICA's
15 primary responsibilities is to maintain the common areas on Kiawah Island. KICA is currently
16 one of KIU's largest commercial customers. In 2011 KICA budgeted \$151,800 for irrigation of
17 its common areas. The 2012 budget adopted by the Board of Directors on November 7 includes
18 approximately \$44,000 more to cover increased costs for water next year. Ultimately KICA will
19 have to pass along the rate increase to its members through higher annual assessments. When
20 this occurs, property owners are paying the rate increase twice, once in their home utility bill and
21 a second time in an increase in assessments paid to KICA. If a property is also part of a regime
22 or homeowners' association, the rate payers may pay this increase a third time, since many of
23 these groups also provide irrigation to common areas and pass those expenses along to their

1 members. At some point you have to ask yourself, "When does this become an unfair burden on
2 the customers of KIU?" I believe we have reached that point.

3
4 MR. MOLONY: DOES KPOG BELIEVE THE 11 THOUSAND GALLON CONSUMPTION
5 THAT KIU IS USING AS THEIR COMPARISON IS A FAIR BENCHMARK?

6 MS. LEHDER: No. My husband and I use approximately 4,000 gallons of water a month while
7 we are in our home full-time on Kiawah Island. It would be difficult for us to even imagine
8 using 11,000 gallons of water in a month. During the summer we are gone for three months, and
9 we limit our water usage to irrigation only. Incidentally, our irrigation system is set to turn on
10 for only 10 minutes a day to water our grass which is only about 200 sq ft. While we are gone
11 for these three months, our bill for water and sewer is approximately \$57.00 a month, but while
12 we are in our home full-time our bill is approximately \$60.00 a month. Also, all property owners
13 whether they are here or use any water at all - pay a minimum bill. KIU Customer Service tells
14 me that if I use no water at all while I am away in the summer, my bill will be approximately
15 \$48.00 per month. Approximately 80 to 85% of Kiawah property owners are here at most only a
16 few months out of the year. It's clear that KIU is receiving a substantial amount of revenue from
17 its customers even when they are not using a significant amount of water or sewer services.

18
19 MR. MOLONY: IN YOUR OPINION, IS A SECOND WATER LINE NEEDED ON
20 KIAWAH ISLAND?

21 MS. LEHDER: Yes. I think most people would agree the main water line to the island is
22 deteriorating and reliable service is critical. The addition of a second water line would be a huge
23 benefit to the residents of Kiawah Island and would ensure that, should an issue occur with the

1 existing main water line, residents would still receive uninterrupted service. It is important to
2 note, however, that without a second line there will not be sufficient capacity to accommodate
3 planned construction at Cougar Island and Captain Sams Spit, also known as Cape Charles.

4 My concern with the second water line is that its cost will be borne solely by Kiawah Island
5 property owners. The developer of Kiawah Island is KIU's parent company, KRA. KRA does
6 not pay any impact fees to KIU, so even though KRA would certainly benefit from the additional
7 waterline, it will pay nothing for it. This is hard for me to understand, because the same
8 developer had to pay the Seabrook Island Utility more than half a million dollars in impact fees
9 for its development at Cassique and Freshfields Village. My rates are going up while my friends
10 at Seabrook are getting rebates from their utility.

11
12 MR. MOLONY: DOES THE APPLICATION HAVE ANY LOCAL SUPPORT?

13 MS. LEHDER: One individual spoke in favor of the Applicant at the Public Hearing on October
14 20, and I did see one letter in support on the Commission's website. I also know that after the
15 public hearing KIU did submit affidavits from 11 individuals supporting the rate application as
16 filed with the Commission. KPOG was able to ascertain that at least seven of the 11 were from
17 individuals either working directly for the Developer or having a business relationship with it.
18 So, do they have any support? I'd have to say yes, but not much. I know we submitted letters
19 from more than 100 property owners expressing their concern about the size of the increase
20 requested by KIU.

21
22 MR. MOLONY: DOES THE APPLICATION HAVE ANY LOCAL OPPOSITION?

23 MS. LEHDER: Yes, as I noted earlier, as part of the Public Hearing record KPOG submitted

1 letters from over 100 Kiawah property owners urging the Commission to give further and serious —
2 consideration to the rate increase requested by KIU. These letters and comments address the 39%
3 water and 5.4% sewer rate increase request, the legitimacy of the operating margin requested, the
4 potential sale of KIU, the current ownership structure, and the unfair practice of not charging
5 impact fees to KRA. This is also the first time that KICA has filed as an intervenor in a KIU rate
6 case. As I mentioned earlier, all property owners on Kiawah are automatically members of
7 KICA.

8
9 MR. MOLONY: IS THERE ANY OTHER PART OF THE APPLICATION THAT IS OF
10 CONCERN TO KPOG, AND IF SO PLEASE STATE WHAT IT IS.

11 MS. LEHDER: Yes, the 13.75% Operating Margin.

12
13 MR. MOLONY: PLEASE EXPLAIN KPOG'S CONCERN REGARDING THE OPERATING
14 MARGIN.

15 MS. LEHDER: KPOG believes that the 13.75% operating margin requested by KIU in the
16 application is extremely high. It is the largest operating margin requested by KIU in any of their
17 rate request applications, and nearly twice the average operating margin granted by the
18 Commission over the last five rate increase applications. The average granted over those
19 applications has been 7.77%. The review of this application shouldn't be about whether
20 Kiawah's rate payers can afford to pay a few extra dollars a month. It should focus on what
21 increase in rates KIU can actually justify. Also, KIU uses the Southern Region which includes
22 the states of Arkansas, Louisiana, Kentucky and Texas as a benchmark for determining its
23 operating margin. Since regulation of investor-owned utilities can vary from state to state, it

1 would have been prudent to utilize utilities in South Carolina. It appears to KPOG that KIU —
2 specifically used utilities with high operating margins in order to justify their inflated operating
3 margin request of 13.75%. While KPOG understands the need for a reasonable operating margin
4 this request appears neither reasonable nor fair.

5
6 MR. MOLONY: DOES THIS CONCLUDE YOUR TESTIMONY?

7 MS. LEHDER: Yes, it does. I have to wonder, however, why KIU waited so long to apply for an
8 increase if their costs had increased so much. With KIU now for sale, the timing certainly looks
9 curious. I do appreciate the Commission's consideration of our evidence and the opportunity to
10 appear before you and to present our concerns.

11
12 END OF DIRECT TESTIMONY

1 KIAWAH ISLAND UTILITY, INC.

2 DOCKET NO. 2011-317-W\S

3 PRE-FILED TESTIMONY OF WENDY K. KULICK

4 BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

5 Testimony Prepared: November 9, 2011

6 Hearing Date: November 30, 2011

7
8
9
10
11
12
13 THIS TESTIMONY IS FILED PURSUANT TO PSC LETTER DATED AUGUST 15, 2011.
14 THE INTERVENOR RESERVES THE RIGHT TO PROVIDE ADDITIONAL TESTIMONY
15 CONCERNING FURTHER INTERROGATORY RESPONSES AND REBUTTAL
16 TESTIMONY TO BE PRE-FILED PURSUANT TO SAID ORDER BY THE APPLICANT
17 AND/OR ANY OTHER PARTY TO THIS PROCEEDING.

18
19 MR. MOLONY: PLEASE STATE YOUR NAME AND ADDRESS.

20 MS. KULICK: My name is Wendy K. Kulick. I live at 38 Marsh Edge Lane on Kiawah Island.
21 This is my permanent address and has been my residence for more than 22 years.

22
23 MR. MOLONY: ARE YOU AUTHORIZED BY THE KIAWAH PROPERTY OWNERS
24 GROUP, INC., ALSO KNOWN AS "KPOG," TO APPEAR BEFORE THE COMMISSION
25 TODAY?

26 MS. KULICK: Yes, the Board of Directors of the Kiawah Property Owners Group ("KPOG")
27 authorized me to appear and present the views of our organization regarding the rate increase
28 application (the "Application") filed with the Public Service Commission (the "Commission") by
29 the Kiawah Island Utility Company, Inc. ("KIU").

1 MR. MOLONY: PLEASE STATE YOUR INVOLVEMENT IN THIS RATE APPLICATION.

2 MS. KULICK: KPOG is an incorporated, non-profit volunteer organization of Kiawah Island
3 property owners. I am a past President as well as a current Board member. I also serve as the
4 Chair of KPOG's Research Committee. The purpose of KPOG's intervention at this time is to
5 provide a voice for property owners expressing concerns regarding the current Application filed
6 by KIU.

7
8 MR. MOLONY: PLEASE STATE KPOG'S POSITION IN THIS RATE APPLICATION.

9 MS. KULICK: KPOG fully understands and appreciates KIU's request for a reasonable rate
10 increase, as well as KIU's need for growth and improvement as development on the island
11 continues. KPOG agrees that a second water line would assure uninterrupted service on Kiawah
12 Island and be very beneficial to the customers there. Nevertheless, we strenuously oppose this
13 rate Application because of its scope and its attempt to force all Kiawah Island property owners
14 to shoulder expenses more appropriately borne by other parties. Because of the number of
15 questions which have arisen over certain aspects of KIU's Application, we believe that the size of
16 the requested increase - particularly the 39% for water services - is excessive, and cannot be
17 justified.

18
19 MR. MOLONY: YOU REFER TO EXPENSES WHICH ALL PROPERTY OWNERS ARE
20 BEING ASKED TO UNDERWRITE. EXACTLY WHICH EXPENSES DOES THIS
21 REFERENCE ENCOMPASS?

22 MS. KULICK: First and foremost, the expense to which I refer is the installation of the second
23 water line. The developer of Kiawah Island is KIU's parent company, Kiawah Resort

1 Associates, L.P. ("KRA"). KRA is also known as Kiawah Development Partners ("KDP") and
2 Kiawah Partners ("KP"). KRA needs the second water line to complete and build out the
3 remaining property designated for development. Since it will be to KRA's great advantage to
4 have the second water line, KPOG believes KRA should pay a part of the cost incurred for
5 installing the second water line. It is important to note that standard practice is for developers to
6 pay impact fees for communities they develop or expand to the utilities that service the area
7 under development or expansion. For example, KRA paid significant impact fees to the
8 Seabrook Island Utility when it developed the Cassique residential community and the
9 Freshfields commercial village on neighboring Seabrook Island. However, KRA pays absolutely
10 no impact fees to KIU when it develops or expands on Kiawah Island, so the cost of new
11 infrastructure for any new development falls on the shoulders of the KIU rate payers. Further, in
12 addition to the Impact Fees paid by the KRA, the wastewater collection system (pipelines,
13 manholes and pump stations) to connect to the collection/treatment systems cost \$ 2.130 million
14 which KRA was required to donate to SIUC as a condition of receiving service. Finally, we
15 believe KRA collected substantial building incentive fees since its last rate increase. In Order
16 No. 90-1080 (Docket No. 90-49-W/S), the Commission allowed these fees to be considered for
17 ratemaking purposes. Again, we believe these fees were substantial and have inquired about
18 them with both KIU and KRA, but they have refused to provide any amounts of fees collected
19 which should be considered by the Commission in this case.

20

21 MR. MOLONY: HOW MANY RATE INCREASE APPLICATIONS HAS KIU FILED SINCE
22 1990?

23 MS. KULICK: Six, if you included the current Application under consideration.

1 MR. MOLONY: IN THE FIVE PREVIOUS KIU RATE APPLICATIONS, WHAT WAS THE --
2 TOTAL AMOUNT REQUESTED? --

3 MS. KULICK: Three Million Thirty-Five Thousand Three Hundred and One dollars.
4 (\$3,035,301.00).

5
6 MR. MOLONY: IN THE FIVE PREVIOUS KIU RATE APPLICATIONS, WHAT WAS THE
7 TOTAL AMOUNT DENIED BY THE COMMISSION?

8 MS. KULICK: Nine Hundred Sixty Thousand Seven Hundred Sixty-Nine dollars (\$960,769.00),
9 or almost one-third (31.65%).

10
11 MR. MOLONY: SINCE 2001, WHEN THE LAST RATE INCREASE APPLICATION WAS
12 FILED BY KIU AND APPROVED BY THE COMMISSION, HOW MANY PASS THROUGH
13 RATE INCREASES HAVE OCCURRED?

14 MS. KULICK: As permitted by the Commission, KIU has passed on to its rate payers seven
15 increases in the cost of water from St. Johns Water Co. during the last 10 years: two in 2004 and
16 one each in 2006, 2007, 2008, 2009, and 2011. This is very different from my friends at
17 Seabrook, where their utility (SIU) has prudently managed its expenses so as to avoid directly
18 passing these increases through to rate payers.

19
20 MR. MOLONY: WHAT WERE THE AMOUNTS OF THOSE PASS THROUGH
21 INCREASES?

22 MS. KULICK: These increases are calculated per usage of 1,000 gallons. On November 15,
23 2004, it was four cents per thousand gallons. Less than a month later came another eleven cents.
24 In January 2006, the increase was 13 cents. There was one for eight cents in February 2007, and

1 one for nine cents in April 2008. A year later there was another 8.2 cent increase. The most --
2 recent increase was five cents in January of this year. The pass through increase in ten years
3 totals 58.2 cents per thousand gallons. KIU clearly has received substantial increases.

4
5 MR. MOLONY: DO YOU HAVE ANY OTHER CONCERNS REGARDING THE
6 PROPOSED RATE APPLICATION AS FILED BY KIU?

7 MS. KULICK: Yes. It is important to point out that KIU currently is in discussions with the
8 Town of Kiawah Island (the "Town") to purchase KIU. Since it is unclear who will own KIU at
9 the time installation of the second water line is complete, I would ask the Commission to make
10 certain KIU's rate increase request is truly justified. At the Public Hearing on October 20, 2011,
11 a senior officer of KRA, who also serves as the Chief Operating Officer of the Utility, stated that
12 KIU would be sold to either the Town or some other third party. Additional testimony at the
13 public hearing indicates the Town has created a committee to study the utility system and that the
14 Town has reason to believe significant efficiencies will be achieved in the event it acquires KIU.
15 Since the Town is a municipality, its purchase of KIU would moot the Application by removing
16 it from the Commission's jurisdiction. The Town's voters overwhelmingly (95%) expressed
17 their support for the Town to acquire the utility system by way of referendum conducted on
18 Tuesday, October 25, 2011. The turnout for this special referendum was noteworthy. Over 400
19 registered voters cast their votes, about the number that usually turns out for a Town election.
20 There were 387 in favor and only 19 opposed to the Town moving forward to acquire KIU.
21 Furthermore, should KIU be sold to a party other than the Town, the Commission will still have
22 to consider the terms and conditions of the proposed sale. This would necessitate an additional
23 docket and public hearing at which time the Commission would be required to determine the

1 appropriateness not only of the acquiring entity but also, once again, the rates upon which the
2 sale would be based. In addition, to these concerns, there are other areas of concern which we
3 seriously question and will be addressed by other witnesses in this case William D. Rogers and
4 Diane Z. Lehder.

5
6 MR. MOLONY: WOULD YOU EXPLAIN WHAT THESE OTHER AREAS ENCOMPASS?

7 MS. KULICK: Yes. Mr. Rogers has prepared an extensive review of the accounting aspects of
8 the Application and how the proposed increase will impact rates and charges to our members.

9 Ms. Lehder will address the effect of the rate increase on the homeowners as well as the concerns
10 about the 11,000 Gallon benchmark used in the Application. I implore the Commission to
11 carefully consider my testimony and that of the other witnesses opposing this Application,
12 evaluate whether such a substantial increase has been justified, and act accordingly. That is in the
13 best interest of our membership and the consuming public the Commission is charged to protect.
14 Frankly, though, KPOG does not believe KIU can sufficiently justify the rate increase they have
15 requested.

16
17 MR. MOLONY: DOES THIS CONCLUDE YOUR TESTIMONY?

18 MS. KULICK: Yes, it does. I appreciate the Commission's consideration of our evidence and
19 the opportunity to present our position before you.

20
21 END OF DIRECT TESTIMONY
22
23